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## AUTO INSURANCE RATES PUT BRAKES ON DETROIT

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PREMIUMS



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Jay Clark Reid, 45, moved to Detroit with his wife, Ida Nilsen, 34, two years ago and bought a home in southwest Detroit. They were shocked by the auto insurance quote they received for \$500 per month. In Toronto, they paid \$180 a month.

### Duggan hopes to find a way to lower costs with D-Insurance plan

# Auto insurance rates put the brakes on Detroit

By JC Reindl, Detroit Free Press 12:28 a.m. EST November 23, 2014

*Can Mayor Mike Duggan really fix Detroit's highest-in-the-nation auto insurance rates?*



(Photo: Kimberly P. Mitchell Detroit Free Press)

Jay Clark Reid and his wife, noted indie rock musician Ida Nilsen, moved to Detroit from Canada two years ago anticipating cheap real estate and ultra-affordable living.

Then they encountered Detroit's highest-in-the-nation auto insurance rates.

Reid, now 45, recalled how the first agent they visited quoted a \$500-per-month premium to insure their late-'90s Toyota Camry, which would be parked in front of their new house in southwest Detroit. In Toronto, the couple paid \$180 a month for insurance with the same insurance carrier, AAA.

"It was a real shocker. I was under the impression from my American friends that insurance was inexpensive here," said Reid, who had been accident-free for more than two decades and later found a \$300-per-month deal with a different carrier. "I just didn't know how we were going to pay it."

As Detroit prepares to emerge from bankruptcy, its long-term prospects for financial solvency may depend in large part on reversing a decades-long slide in population. But along with the city's crime rate and local income tax, auto insurance rates that are often double or triple what suburban motorists pay are making it expensive for residents to stay — and discouraging newcomers.



Detroiters pay the highest auto insurance rates in the country. JC Reindl/Detroit Free Press

The high rates could threaten the momentum behind the mini-boom of new and redeveloped apartment buildings opening in and around downtown, as residents are left with less money in their pockets for market-rate rents and visiting the restaurants, bars and shops that are popping up.

George Jackson, former CEO of the Detroit Economic Growth Corp., said Detroit auto rates are essentially an extra tax on residents.

"That's a pretty big chunk of money going out of your disposable income," he said. "It does have a negative psychological effect when your monthly payment on your car insurance is more than your car payment."

In his first State of the City address in February, Mayor Mike Duggan proposed creating "D-Insurance," a city-sponsored insurance company to lower rates for Detroiters. Last week, Detroit City Council approved a \$75,000 contract to hire a consultant to study the proposal's feasibility and determine precisely why car insurance costs so much in the city.

Such a program would be unique among large U.S. cities. The report is expected next spring.

The prevailing wisdom is that Detroit's insurance rates are largely driven by high theft, pervasive fraud and unlimited medical benefits to accident victims under Michigan law. The City's public works department is also looking at the factors that drive up rates.

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The D-Insurance plan has its skeptics.

"I don't believe that the city starting its own insurance company will work at all," said state Sen. Virgil Smith, D-Detroit, who has backed several unsuccessful bills in the Legislature for reducing urban rates. "The fact (is) that you have to purchase unlimited personal injury protection ... that puts the city in line to pay people's medical bills. And you talk about bankruptcy now — that could really hurt the city."

Duggan himself isn't yet sure whether D-Insurance can solve the rate problem. But in an interview with the Free Press last month, the mayor said it's his preferred option.

"The question is: Can we come up with a plan that we can demonstrate objectively will cost less money than the products being offered," he said.

Duggan said he was surprised, for instance, by the recent findings of a volunteer team of insurance experts who looked into Detroit's rates.

"The usage of medical facilities is driving more of the costs than car thefts, which is something we wouldn't have thought when we started out," said Duggan, who was the top executive at the Detroit Medical Center before he was mayor. "The data that we're seeing suggests that Detroiters are running up more in medical claims than other communities. ... And so why is that? What's causing that? And can we change it?"

The average annual auto premium per car in Michigan was \$1,110 in 2011, compared with \$912 nationwide, according to the latest figures available from the National Association of Insurance Commissioners.

But city and state officials say there are currently no reliable, publicly available figures for the average auto insurance premiums paid by Detroit residents. Free Press interviews with dozens of Detroiters suggest it is common for residents to pay between \$200 and \$450 a month — \$2,400 to a whopping \$5,400 annually. Various nationwide surveys, including one done last summer (<http://www.insurancequotes.com/auto/most-expensive-metropolitan-areas-for-car-insurance>) by insuranceQuotes.com, have found no cities with higher prices than Detroit.

Affording such rates can be tough for many Detroiters, as the city's median household income in 2013 was \$24,820. That was 64% below the \$48,273 Michigan median income and 71% below the national median of \$52,250.

"What we do know is the rates are unaffordably high and they have to come down significantly," said Melvin (Butch) Hollowell, the city's top attorney and a former state insurance consumer advocate.

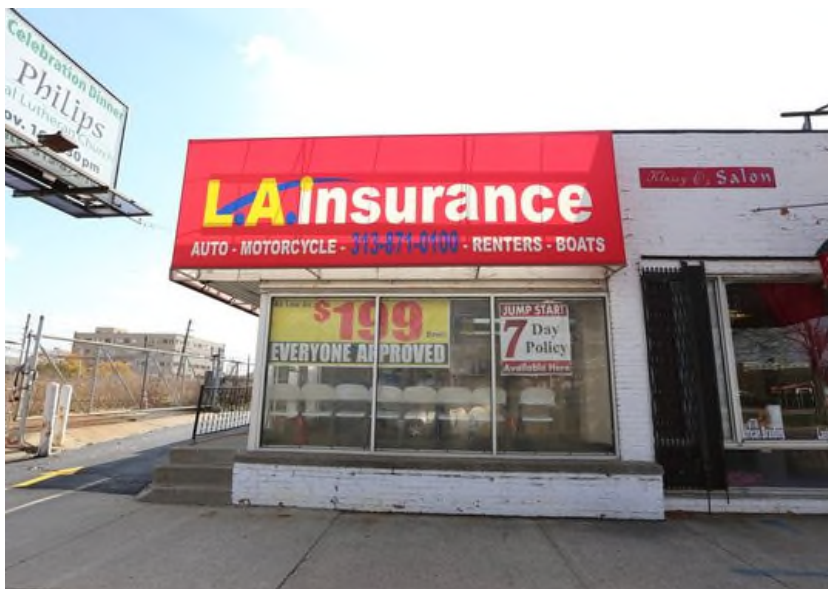
### The insurance dodge

Detroit police have estimated that 60% of all Detroit drivers lack auto insurance. It is a misdemeanor to drive in Michigan without insurance, punishable by a fine of \$200 to \$500 and up to a year of jail time.

Proof of insurance is required to register a vehicle in Michigan or get one out of an impound lot, so there's a hot Detroit market for short-term auto policies of just one week.

A one-week policy from one popular carrier, L.A. Insurance, can cost about \$250.

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offers a seven-day policy for about \$250. (Photo: Jessica J. Trevino Detroit Free Press)

Former auto insurance salesman Sam Donahoo, 48, of Bingham Farms said his uncle helped run as many as eight LOOK! Insurance offices in Detroit until the ever-rising auto premiums priced out their customers, prompting them to close their last office a year and a half ago.

He said most Detroiters were getting quotes of \$300 to \$400 a month during his final years in business. Donahoo wondered why rates kept going up but "the underwriters never explained it to us."

"At the end, I was literally telling people on the phone, 'You don't want to hear this quote.' And they were like 'tell me,' and I go, 'OK, and the next thing you know it's click,'" he recalled.

"If you can't afford car insurance, you can't afford to drive out to the best jobs," Donahoo said. "That was what really depressed me in the end. You want to help these people, but you couldn't."

Besides skipping insurance, Detroiters have found other ways to dodge the high rates.

Many residents register their vehicles and licenses outside the city, using a family member's address.

Wayne State University graduate student Derek Atchley, 26, lives in Midtown but said he uses his mother's house in Monroe for his insurance and driver's license.

"When my friend was getting a new car, I actually advised him to do the same thing," Atchley said. "Don't change your address from Sterling Heights, because if you use your Detroit address, it's going to be about three times as much."

Those who attempt this gambit risk having an accident claim rejected if their insurance carrier finds out. Those individuals also cannot vote in Detroit elections because the address of one's voter registration must match his or her driver's license.

## ZIP codes, credit scores

Nationwide, it is common for urban dwellers to pay more for auto insurance than people in suburban and rural areas, a result of higher traffic densities, crime and vehicle injury claims within cities.

Those factors all apply to Detroit, which had the highest vehicle theft rate in Michigan last year with 1,699 incidents per 100,000 residents, according to FBI statistics. The national average was 221 per 100,000.

There are other reasons, too, such as a 1996 law, signed by then-Gov. John Engler, which ended a territorial rating system in Michigan that, in the opinion of auto insurers, forced noncity dwellers to pay higher rates to subsidize the artificially low Detroit rates.

The territorial system forbade insurers from charging rates that were less than 45% of the highest territory and imposed tighter rules for adjacent territories.

Auto insurers argued that they couldn't both recoup their high theft losses in Detroit and offer rates outside the city that were low enough to attract customers. With the territorial restrictions lifted, insurers started assigning ratings by ZIP code — resulting in higher Detroit rates.

"It allowed the insurers to identify where the costs were coming from. So the rates became more actuarially accurate," said Peter Kuhnmuench, executive director of the Insurance Institute of Michigan, the industry's trade group.

But others see ZIP code rating as legalized insurance redlining that is unfair. "People really should be charged more on how they drive rather than where they live," city attorney Hollowell said.

Also controversial is the use of credit scores and educational background in setting rates, a practice upheld by the Michigan Supreme Court in 2010. Auto insurers say there is statistical correlation between someone's personal finances and the likelihood of filing a claim.

Critics contend that credit scoring penalizes poor people and rewards those who are better off.

"It makes no sense that those people who are least able to afford it are paying twice as much. It means you can legally discriminate against the poor," said Steve Gursten, head of the Michigan Auto Law firm in Farmington Hills. He's president of the Motor Vehicle Trial Lawyers Association and thinks that auto insurers' taste for profits is driving up insurance costs.

Of all the reasons Detroit's rates lead the nation, perhaps the most significant is Michigan's no-fault insurance law. It is the only system in the country that requires motorists to buy unlimited lifetime medical benefits for auto injuries. It also provides accident victims with up to \$5,189 a month in lost work benefits for up to three years.

The no-fault law is considered a blessing for those who suffer catastrophic injuries. The system started in 1973 as a way to reduce insurance costs by eliminating the need for accident victims to sue the other driver after a crash. Prior to the law, Michigan motorists were not required to buy insurance if they paid \$45 a year into a fund for uninsured people.

But as the cost of medical care grew, so did auto rates.

The insurers' trade group says the bottomless benefits have been an incentive for Detroit hospitals to shift costs and recoup money they lose serving the city's many uninsured and Medicaid patients. The group has unsuccessfully sought to cap no-fault benefits via legislation amid ferocious opposition from the medical community and accident lawyers.

"When you put an unlimited benefit out there, the (medical) providers find it," said Kuhnmuench of the Insurance Institute.

Outright fraud is another concern. A National Insurance Crime Bureau report found that questionable medical claims in Detroit jumped 124% between 2009 and 2011, and that the city was responsible for one-third of all such claims in the state. Of the 12 states with no-fault insurance, Michigan is the only one without a statewide system for rooting out fraud.

In testimony last year before a Michigan legislative committee, a State Farm Insurance fraud investigator described how unscrupulous companies have been scouring thousands of police reports for vehicle accidents and referring those involved to certain medical clinics and attorneys, even if the person wasn't injured.

The person's auto insurer could then be billed for hours of physical therapy, despite spending as little as 15 minutes in a clinic. These schemes bill as much as \$5,200 for an MRI and \$7,000 for pain injections, services that hospitals do for less than \$2,000 and \$500, respectively, according to the testimony by investigator Patricia Parr-Armelagos.

Once an insurer has paid \$530,000 for an auto injury claim, future expenses for that individual are reimbursed by the Michigan Catastrophic Claims Association. The association currently assesses insurers an annual fee of \$186 per vehicle, which gets passed on to consumers.

Laura Appel, a senior vice president for the Michigan Health & Hospital Association, said that auto insurers want to change the no-fault system to grow their own profits by reducing health care services to people who need them.

"From the perspective of Michigan hospitals, caring for victims of catastrophic auto accidents and ensuring they get the medical care and rehabilitation they need is our No. 1 goal," she said.

The city hopes its study will be done this spring. But that means many more months of big payments for tens of thousands of Detroiters like Tina Cox, who lives near New Center.

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Tina Cox, 37, who lives in Midtown pays \$465 a month for auto insurance on for her 2013 Cadillac ATS. (Photo: Jessica J. Trevino Detroit Free Press)

Cox, 37, has been paying high auto rates for years. She owes \$465 each month for insurance on her 2013 Cadillac ATS sedan, which she parks in her garage, as well as \$328 to pay off the car.

"The mayor says he's going to try to do something, so I'm waiting," she said.

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## Likely factors driving Detroit's high premiums

- High car theft and burglary rates. Detroit had the highest vehicle theft rate in Michigan last year with 1,699 incidents per 100,000 residents. The national average was 221 per 100,000.
- Because of higher traffic volumes, Detroit has more accidents on its highways and roads than other Michigan towns and rural areas. Detroit had 7% of all reported traffic crashes in Michigan last year.
- Pervasive fraud involving therapy and chiropractor schemes. Questionable medical claims in Detroit jumped 124% between 2009 and 2011. Detroit was responsible for one-third of all such claims in Michigan.
- Unusually high number of medical claims after crashes.
- Residents with lower credit scores.

Source: Free Press research, state and FBI statistics, National Insurance Crime Bureau reports

## How bad is medical-claim fraud?

A State Farm insurance fraud investigator caused a stir in 2013 by detailing the pervasiveness of fraud in auto accident insurance claims in Michigan. Here are highlights from her testimony before a legislative committee:

- Unscrupulous companies buy thousands of police reports for vehicle accidents, referring those involved to certain medical clinics and attorneys — even if the person wasn't injured.
- The company's solicitors will falsely claim they are from an insurance company to give legal guidance.
- Body shops, tow companies and paramedics can get payments of \$1,500 for referring potential patients to the companies or therapy providers.
- Solicitors may arrange for nonmedical transportation companies to take patients to medical clinics, billing exorbitant fees that are paid under no-fault insurance. Fees can reach \$220 for trips within a city limit or \$55 for a pickup plus \$3.75 per mile. Patients can be driven up to 100 miles.
- Patients can spend as little as 15 minutes per visit, but some chiropractors and physical therapists will bill for several hours.
- Some clinics charge insurers \$5,200 for an MRI that hospitals routinely do for under \$2,000.
- Diagnostic tests are frequently misinterpreted to magnify the severity of a patient's condition — leading to more treatment and unnecessary surgery.
- Spinal injections for pain billed at \$7,000 that typically cost \$500 at a doctor's office.

Source: Written testimony for fraud investigator Patricia Parr-Armelagos of State Farm

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